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July 12, 2019

Arizona Corporation Commission

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Docket Control  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, AZ 85007

RE: Arizona Public Service Company (APS or the Company)  
Possible Modifications to the Arizona Corporation Commission's Energy Rules  
Docket No. RU-00000A-18-0284

APS appreciates the opportunity to respond to questions raised in Chairman Burns' June 7, 2019 letter regarding the Commission's Energy Rules. APS recognizes the need to modernize and consolidate the current Rules and other policies to better align with opportunities and innovations that have occurred since their adoption. These innovations include broad electrification of the transportation sector, an economy increasingly reliant on data management with corresponding energy needs, 5G infrastructure, and the growing regionalization of the energy markets in which Arizona utilities participate.

All of these trends are occurring in a state fortunate to have sustained and robust population growth, which in turn drives energy infrastructure needs. These challenges and opportunities, and their impact on the various clean energy standards under consideration, demand thoughtful and collaborative engagement, which APS welcomes.

The continued operation of Palo Verde, the largest source of carbon-free energy in the country, is essential to the success of any clean-energy goal. Other important clean energy tools include Demand Side Management (DSM) programs optimized to facilitate higher levels of renewable energy and reduce system peaks, sensible renewable energy investments, and increasing levels of energy storage.

While these exciting developments bring much promise, we cannot discard the energy infrastructure investments that have allowed us to realize these accomplishments. Nor can we ignore the potential economic costs of a rapid transition to a clean energy future. APS believes a clean energy future can be achieved without sacrificing the affordability upon which our state's economy and our customers depend.

With that in mind and in preparation for its upcoming Preliminary IRP, APS has been working closely with E3, a consulting firm with wide-ranging expertise in the electric sector, and a number of key stakeholders to explore questions similar to those posed by the Commission—namely, how will different clean energy policies and strategies impact APS's ability to maintain reliability and affordability. To facilitate this process, E3 developed a scenario planning model that provides results consistent with the more detailed models run by APS to create its resource plan. This tool, designed to allow quick and iterative testing of a wide range of scenarios and sensitivities, has allowed APS and stakeholders to evaluate the potential implications of a variety of goals and policies.

This process has yielded a number of valuable insights, many of which are directly related to the questions posed by the Commission regarding future policy goals. APS plans to make E3 available at Staff's July 30<sup>th</sup> Workshop to share some of the results of the stakeholder group analysis.

Some of the key findings APS has observed through this analysis include:

- Like other utilities, APS has many opportunities to make progress in the transition towards a clean, low-carbon portfolio, including: investments in renewables and energy storage, utilization of demand-side technology and programs, continued operations of existing carbon-free resources, and efficient trade with neighboring utilities.
- Technology-agnostic policies that establish broad-based goals for clean energy and provide utilities with a flexible framework for compliance will enable achievement of overarching objectives at lower cost than policies that establish mandates or quotas for specific technologies or resource types.
- Designing policies that recognize the value of existing clean resources will help establish an affordable pathway to a clean, low-carbon portfolio.
- In a wide range of clean, low-carbon portfolios, investments in natural gas peaking resources will be essential to maintain system reliability and customer affordability, serving as standby resources to ensure load can be met when solar and wind are unavailable and battery storage is depleted.

In closing, APS believes there is much work to do in designing Energy Rules that capture the opportunities available in the Arizona and regional energy markets, as well as through new and emerging technologies. We affirm that any standards developed by the Commission should incorporate the following design elements:

- **Flexibility**, allowing utilities to achieve compliance with a specified objective using all the potential tools available to it and avoiding an overly prescriptive "one-size-fits-all" solution;
- **Adaptability**, enabling utilities to adjust their strategies and plans over time to respond to changing market conditions, customer needs, and changes in technology; and
- **Simplicity**, allowing utilities to demonstrate through compliance that the corresponding clean energy objective has been achieved.

APS looks forward to continuing this important conversation with the Commission and stakeholders. If you have any questions, please to contact me at 602-250-4944.

Sincerely,



Rodney J. Ross  
Manager

RR/lm

cc: Chairman Robert Burns  
Commissioner Boyd Dunn  
Commissioner Sandra Kennedy  
Commissioner Justin Olson  
Commissioner Lea Márquez Peterson